

**STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765**

REVIEW REPORT
OF
OFFICE OF THE ATTORNEY GENERAL
STATE OF INDIANA
April 1, 2001 to March 31, 2003

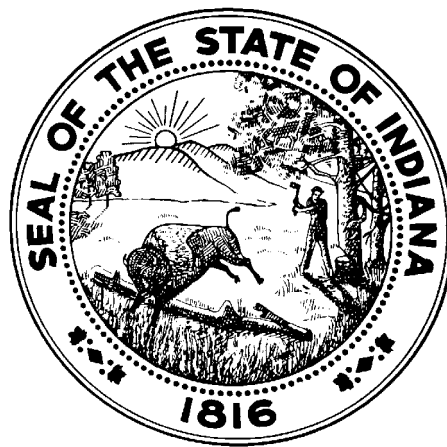


TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Agency Officials	2
Independent Accountant's Report.....	3
Review Comments:	
Attendance Reports	4
Motor Pool Logs.....	4
Supplementation of Appropriations	4
SDO Advance	4
Fixed Asset Inventory	5
Contract Approvals	5
Contract Requirements.....	5
Internal Control over Revenue Collections	5
Audit Trails.....	6
Exit Conference	7
Official Response	8-16

AGENCY OFFICIALS

Office

Official

Term

Attorney General

Mr. Steve Carter

01-08-01 to 01-10-05



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE OFFICE OF THE ATTORNEY GENERAL

We have reviewed the receipts, disbursements, and assets of the Office of the Attorney General, for the period April 1, 2001, to March 31, 2003. The Office of the Attorney General's management is responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports.

Based on our review, nothing came to our attention that caused us to believe that the receipts, disbursements, and assets of the Office of the Attorney General are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State Agencies, and applicable laws and regulations except as stated in the review comments.

STATE BOARD OF ACCOUNTS

August 25, 2003

OFFICE OF THE ATTORNEY GENERAL
REVIEW COMMENTS
March 31, 2003

ATTENDANCE REPORTS

As noted in our prior Audit Reports (B12455 and B16792), we observed that employee attendance reports were frequently signed and dated prior to the last day worked. In addition, supervisors either pre-approved attendance reports by signing in advance of employees or reviewed and signed attendance reports after the reports had been submitted to the Auditor of State.

Employee attendance reports should not be signed, dated or approved prior to the last day worked in a pay period. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 9)

After being completed by the employee, the attendance report should be reviewed, signed, and dated by the immediate supervisor of the employee, or by another designated individual who has knowledge of the employee's attendance. The review should be done prior to submission of payroll to the Auditor's Office (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 9).

MOTOR POOL LOGS

We noted that State Form 13696, Report of Vehicle Mileage and Costs, was not consistently completed as to commuting miles.

An agency must submit the completed Report of Vehicle Mileage and Costs (State Form 13696) to State Motor Pool at the end of each month. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 11)

SUPPLEMENTATION OF APPROPRIATIONS

The Office of the Attorney General deposited several refunds for previous fiscal year expenditures as current year refunds. By recording these as refunds of current year expenditures, the Office of the Attorney General is supplementing its State appropriations by the amount deposited.

A refund of expenditure can only be used if the original disbursement and the refund or collection are within the same fiscal year. If the collection is not received within the same fiscal year as the related expenditure, then the collection must be recorded as miscellaneous revenue. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 3)

SDO ADVANCE

The Special Disbursing Officer Fund (SDO) advances for the Office of the Attorney General were not turned over, or reimbursed completely, for several months.

If a SDO advance is not used within one or two months then the SDO advance is too large and should be reduced. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 7)

OFFICE OF THE ATTORNEY GENERAL
REVIEW COMMENTS
March 31, 2003
(Continued)

FIXED ASSET INVENTORY

As noted in our prior Audit Reports (B12455 and B16792), the fixed asset inventory of the Office of the Attorney General is not complete as to additions.

Each state agency is required to report to the Auditor of State all additions and retirements of assets with a cost of \$20,000 or more. Assets costing more than \$500 but less than \$20,000 must be maintained on an asset control system at the agency. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 10)

CONTRACT APPROVALS

Our testing found that the Office of the Attorney General made payments to vendors under contracts for professional services. These contracts were in effect prior to approval by the proper officials. Internal controls are weakened when a contract is put into effect before proper approval.

Indiana Code 4-13-2-14.1 and 14.2 require that a contract to which a state agency is a party must be properly approved and in writing.

CONTRACT REQUIREMENTS

Records presented for audit indicates that the Office of the Attorney General (OAG) did not comply with contract requirements relating to consideration for services. We found contracts which had been paid in excess of the contracted consideration amounts. However, the OAG received services for all payments tested.

Each agency, department, institution or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

INTERNAL CONTROL OVER REVENUE COLLECTIONS

Our testing of revenue collections revealed that checks are not immediately endorsed upon receipt.

Checks should be restrictively endorsed with an endorsement stamp, immediately upon receipt. This would occur upon opening the mail or otherwise receiving the instrument. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 3)

OFFICE OF THE ATTORNEY GENERAL
REVIEW COMMENTS
March 31, 2003
(Continued)

AUDIT TRAILS

The Unclaimed Property Division's computer system issues receipt numbers, batch numbers, and report numbers consecutively. However, upon review of the computer system we found that receipt numbers, batch numbers, and report numbers had gaps in the numbering sequence with no electronic audit trail explaining what happened to the missing numbers. A historical log is recorded in the computer system but is deleted each evening.

The computerized accounting system must maintain electronic audit trails sufficient to trace all transactions from original source of entry into the system, through all system processing, and to the results produced by the system. The audit trails must also maintain sufficient information to trace all transactions from the final results produced by the system, through all system processing, and to the original source of entry into the system. These audit trails must be protected from modification and deletion. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 16)

OFFICE OF THE ATTORNEY GENERAL
EXIT CONFERENCE

The contents of this report were discussed on September 3, 2003, with Mr. Larry Hopkins, Chief Executive Officer and Mr. Tony Rogers, Controller. The official response to the review findings has been made a part of this report and may be found on Pages 8 through 16.



STATE OF INDIANA
OFFICE OF THE ATTORNEY GENERAL

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STEVE CARTER
ATTORNEY GENERAL

TELEPHONE (317) 232-6201

September 26, 2003

Mr. Charles Johnson, State Examiner
Room 418, Indiana Government Center South
402 W. Washington Street
Indianapolis, IN 46204

Dear Mr. Johnson,

This letter will serve as our "Official Response" to the Audit Report for the period of April 1, 2001 to March 31, 2003.

Attendance Reports

Court proceedings, case work and investigations often dictate irregular work hours. As such, instances of employees having completed their work week but required to work more on short notice have occurred. The Office of Attorney General monitors this and will strengthen review procedures to ensure that employees have re-certified their attendance reports to their supervisors. It is the policy of the OAG that time sheets for employees unable to sign due to travel, illness or other absence shall have a temporary sheet completed and provided by the supervisor for payroll purposes, which is then replaced with an original attendance sheet completed by the employee and supervisor on the employee's return with appropriate entitlement changes made. The OAG will reinforce time sheet compliance requirements with all employees.

Motor Pool Logs

The OAG notes that employees with assigned vehicles have faithfully reported, for tax purposes, their commuting trips per policy on State Form 14304, Employee Attendance



Report, and that the auditor had no findings accordingly. The absence of commuting mileage on State Form 13696 is a carryover procedure from the prior administration dating back to their September 7, 1999 response which states that it would "start a periodic comparison of attendance reports to mileage logs to verify proper reporting of commutes to the accounting section." Future vehicle mileage logs will reflect commuting mileage per the example shown in Chapter 11, Accounting and Uniform Compliance Guidelines Manual for State Agencies.

Supplementation of Appropriations

There were 10 nominal cost refunds the auditor identified as transactions which should have been posted as revenue since the expense occurred in the prior year. The total of these transactions was \$4,189.83 and represents only .028% of the total \$14,719,522.05 taken in as receipts by the OAG's for various functions, case settlement and consumer restitution. The OAG will ensure that future cost refunds are recorded as cost or revenue.

SDO Advance

This administration is pleased to note that this audit report has no reconciliation finding as compared to prior administration audit reports. Every effort continues to be done to comply with accounting requirements and internal controls. The authorization levels for each SDO account remain unchanged from their original authorizations completed by prior administrations. The OAG will review the turnover rates for each account and request an appropriate authorization amount in accordance with SBA recommendation.

Fixed Asset Inventory

This administration notes that the control of assets has been a longstanding issue with prior administrations. We are pleased that this administration's purchases and compliance with accounting policy and procedure is satisfactory as evidenced by the items (Zenith television and the Sony cassette recorder) the auditor could not find in the asset database that were purchases made by prior administrations. We will again conduct our annual asset inventory in the near future and attempt to reconcile the prior administration assets noted by the auditor.

Contract Approvals

The OAG acknowledges that that services for two contracts were initiated prior to the completion of all state agency sign-offs. However, those agency approvals were

eventually received, and the OAG's decision to move forward was intended to expedite service benefiting the public. The explanation below is intended to disclose the extenuating circumstances of those exceptions. The OAG will explore the ability to have future contracts expedited through IDOA emergency approval procedures.

The contracts referred to in the audit are for advertising unclaimed properties in county newspapers. The advertising occurred under IC 42-34-1-28 that requires publishing lists of owners of unclaimed property in each county. The OAG originally planned to conduct an auction of unclaimed property in the Fall of 2001. In keeping with this plan, it was necessary to advertise properties beforehand in all 92 counties for owners to claim their property prior to conducting the auction per IC 32-34-1-31(a). In order to ensure that the notices appeared sufficiently in advance of the public sale to give owners the chance to claim their property, it was not possible without increasing the expense of the project to get all state approvals prior to having the notices published.

The advertising was successfully accomplished, however, the auction had to be deferred until 2002 because of the magnitude of inventorying and appraising items not auctioned by prior administrations for the past 6 years, even though IC 32-34-1-31(a) requires auctions to be held every 3 years. Additionally, we received more safekeeping properties from holders in compliance with the statute holding period changes that became effective July 1, 2001.

The OAG contracted with the Hoosier State Press Association through its affiliate Indiana Newspaper Advertising Network (INAN) for advertising property in 2002. In order to better manage the processing of claims, the advertising was staggered throughout the year and a contract was initiated much earlier than past similar contracts. The INAN contract was sent to IDOA for approval, held, and returned unsigned for an explanation on vendor selection. We promptly replied (see Exhibit A, letter dated June 4, 2002, attached), and the contract was ultimately approved by IDOA and then by the State Budget Agency. However, in order to take advantage of price breaks available for early publication commitments, and in order to ensure that the notices appeared sufficiently in advance of the unclaimed property auction allowing owners a chance to claim their property, it was not possible to get all state approvals prior to having the notices published.

Contract Requirements

The OAG also acknowledges that two contracts exceeded funding caps contained in the contract before extensions or new contracts could be put in place to provide continuation of the service. In both cases the decision to exceed the cap was intended to provide the general public with

efficient, uninterrupted services. Listed below is a brief explanation of the circumstances involved.

- (1) The first contract referred to in this finding is the CallNet contract used for registering Indiana residents on the Telephone Privacy List (TPL). In late spring, 2001 the General Assembly passed the Telephone Solicitation of Consumers Act, IC 24-4.7, et. seq. The law itself did not become effective until July 1, 2001; and publication of a Do Not Call list and enforcement of by the Attorney General took effect January 1, 2002. The OAG found it necessary to take urgent measures to immediately respond to the public's desire to register for the TPL. Immediately after passage of the Act (and even before it was signed by the Governor), this office was deluged by Indiana residents wanting to register for the TPL list. Responding immediately to the legislative act, the OAG contacted several Indiana call centers and determined that Bloomington-based CallNet could most cost-effectively and readily meet our needs. We entered into an initial contract and later amended it as well as initiated additional contracts to accommodate the high volume of demands for registration.

As is well known by now, Indiana citizens embraced this law with immediate and unparalleled fervor. By the end of 2001, the percentage of Indiana consumers on the list far exceeded that of any other state with a similar statute. By 12/31/01 there were 827,839 registrations representing more than 2,000,000 citizens

The unprecedented registration rate exceeded expectations. On August 14, 2001, OAG exercised due diligence by requesting a BAA (exhibit B) be conducted to establish a long-term contract with a call center, and DOA was not disposed to approve any more contract amendments, wanting to have a permanent contract pursuant to a BAA. Ultimately due to the lengthy BAA process the payment cap contained in the contract was exceeded and the permanent contract was not finalized until November 2001. (Call Net was the successful responder.)

The OAG would not have acted in the best interests of the citizens of the State had we halted TPL registrations until the BAA process was completed.

The cost of the CallNet contract is considered a component of "the amount necessary to cover the cost of providing the listing to telephone solicitors" under IC 24-4.7-3-1(e), and is factored into the fee the OAG charges telephone solicitors to obtain a copy of the lists. Thus, CallNet's charges have been and continue to be recouped from a source other than the General Fund.

- (2) The second contract referred to by the auditor is the INAN contract previously referenced. This contract provided services for publishing unclaimed property in 92 Indiana county newspapers. During the audit the OAG provided exhibit C (attached) to the auditor for clarification of the terms of this contract.

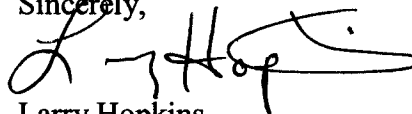
Internal Control Over Revenue Collections

The process for controlling collections received for unclaimed property and collections litigation is a continuation of a prior administration procedure thought to be satisfactory based on SBOA's last audit results that did not identify this issue as a necessary practice, but instead recommended utilization of a transmittal letter for moving received checks to other state agencies. Upon the auditor's disclosure of the issue an immediate change was instituted. Checks received are now endorsed upon receipt. Such a practice may complicate resolution of certain claims by implying acceptance of unintended settlements when less than full payment is made and a check is endorsed without resolution of the underpayment.

Audit Trails

The unclaimed property system reviewed by the auditor was adopted for use in 1999 by the prior administration. The issue of missing control numbers for receipts dates to this action. This is a system fault that has been reported to the software contractor for correction. Pending this correction, the unclaimed property section will maintain a log for voided control numbers and a reason for non-use.

Sincerely,



Larry Hopkins
Chief Executive Officer

LH:rb

Attachments (3)



STATE OF INDIANA
OFFICE OF THE ATTORNEY GENERAL

INDIANA GOVERNMENT CENTER SOUTH, FIFTH FLOOR
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STEVE CARTER
ATTORNEY GENERAL

TELEPHONE (317) 232-6201

To: Jay McQueen

From: Greg Zoeller

Date: June 4, 2002

Re: Contract Justification

The Office of Attorney General ("OAG") is contracting with the Hobsier State Press Association d/b/a Indiana Newspaper Advertising Network ("INAN") to assist in coordinating the publishing of property notices and display ads within county newspapers. The State is required by IC 32-9-1.5-28 to cause notice to be published in a newspaper in each county of Indiana of the last known address of any person who is the apparent owner of abandoned property. Historically, ads have been annually placed in each of the 92 counties.

INAN will serve as a conduit for placing ads with both members and non-members of the association. The vast majority of Indiana newspapers are members of INAN. The working relationship between INAN and its members provides ready benefits such as specific industry knowledge and expertise with publication design, printing needs and placement of display advertisements. INAN will also serve as a point of contact between our office and the various newspapers to ensure that OAG requirements are met.

OAG selected INAN for a number of reasons. First, compared to a for-profit public relations/advertising firm there are no costs other than design to pay in meeting IC 32-9-1.5-28 requirements. INAN will receive its commission from the newspapers in which an ad is placed. Second, OAG will receive advice free of charge to assist in planning property notices in advance for each county and its designated marketing areas (DMA) in order to achieve the best cost of placing ads. Third, the INAN-member relationship provides up-to-date circulation, rate and other valuable information in the selection of newspapers. This significantly contributes to controlling cost and identifying any newspapers that run concurrent ads within their chain for no extra cost.





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STEVE CARTER
ATTORNEY GENERAL

TELEPHONE (317) 232-6201

August 14, 2001

Indiana Department of Administration
Procurement Division, BAA/RFP Section

This Letter of Intent is submitted for the BAA for call services for the Telephone Privacy Program.

Description of Services Needed:

In compliance with Indiana Code (IC) 24-4.7, Telephone Solicitation of Consumers, the Consumer Protection Division of the Office of the Attorney General will establish a Telephone Privacy List to register Indiana residents who do not wish to be solicited by telephone. The list is then provided to telemarketers who are prohibited from calling registered telephone numbers.

Call answering services are provided for receiving resident registration calls 24 hours per day, 7 days week, including holidays. Equipment and personnel are provided in sufficient number to handle an average 2,000 calls per week during low demand times and 10-12,000 weekday calls during peak publicity or campaign registration periods. For the initial 12-month registration period beginning January 2002, approximately 325,000 calls may occur. The call service provider provides rapid registration and enters essential name, address and telephone number(s) into a compatible database for import into a centralized OAG database. Essential information is verified with the caller before ending the call.

Scope of Work:

- a. Receive daily calls from Indiana residents to register a maximum of 10 personal residence telephone numbers per resident for the Telephone Privacy list which prevents telemarketers from contacting them.




- b. Record essential name, address, and telephone number(s) in a database as the calls are received, the data of which must be exportable to the program manager or his designee when requested.
- c. Operators receiving calls enter data and must read data collected back to caller to confirm accuracy.
- d. Prepare necessary script(s) for toll free 800 telephone number(s) that Indiana residents may dial to register.
- e. Provide a minimum of one 800 toll free number that is freely transferable to the Office of the Attorney General if contract is terminated.
- f. Provide 24 hour, 7 days a week call answering services for Indiana residents to register at their convenience.
- g. Provide call services at an estimated 2,000 calls per day with periodic surges reaching 10-12,000 calls per day.
- h. Call length is minimized to collect essential information and control cost.
- i. All data collected is the property of the Office of the Attorney General and may not be used for any other purpose.
- j. Calls at the 2,000 call per day level must be answered within 30 seconds, persons placed on hold may not be on hold more than 60 seconds.
- k. Database established by the call services firm must be compatible with program manager's technology.
- l. Monthly reports are provide call statistics including but not limited to total number of calls, average call length, number of caller hang-ups, total call minutes

Estimated Contract Cost:

1st year - \$341,250.00 + 2nd year - \$183,750.00 = \$525,000.00

Contract Effective Date:
BAA Number:
Agency Contact Person:
Agency's Contact Person Email:

September 1, 2001
BAA
Tony Rogers
trogers@atg.state.is.us


W. A. Rogers
Director of Administration

TO: John Jacob, State Board of Accounts
From: Tony Rogers, Controller, Office of the Attorney General
Date: July 3, 2003
RE: INAN Contract (Unclaimed Property Division), May, 2002 (EDS A56-2-02-24)

You have expressed concern over the fact that while the stated amount of this contract is \$105,188, the OAG actually paid INAN \$781,353. Please accept this memorandum as an explanation of two different types of work (and compensation) encompassed in this contract. I believe this is alluded to in Greg Zoeller's memo dated June 4, 2002 to Jay McQueen at DOA [attached to the contract] but obviously needs some clarification.

The OAG was required by IC 32-9-1.5-28 (subsequently re-codified as IC 32-34-1-28) to:

publish a notice not later than November 30 of the year immediately following the year in which unclaimed property has been paid or delivered to the attorney general. . . . [T]he notice . . . must be published at least once each week for two (2) successive weeks in a newspaper of general circulation published in the county in Indiana of the last known address of any person named in the notice. . . .

(d) The advertised notice required by this section must be in a form that, in the judgment of the attorney general, will attract the attention of the apparent owner of the unclaimed property and must contain the following information:

(1) The name of each person appearing to be an owner of property that is presumed abandoned . . . (2) The last known address or location of each person appearing to be an owner of property that is presumed abandoned . . . (3) A statement explaining that the property of the owner is presumed to be abandoned and has been taken into the protective custody

One component of the work performed by INAN is to design and prepare display ads "to attract the attention of the apparent owner of the unclaimed property". The fee for this work, which is described in Contract Exhibit A (Scope of Work), paragraphs 3 and 5, was \$105,188 – the stated contract amount.

Another component of the work, described in the remaining paragraphs of Exhibit A, was the placement of the ads in newspapers that cover the 92 counties for 2 successive weeks as required by the statute cited above. For ease of administration, it was agreed that the newspapers publishing the property ads would submit their bills to INAN, and that the OAG would reimburse INAN for the publication costs. This intent is found in paragraph 2 ("The State understands and acknowledges that INAN shall also be compensated by way of commission from the individual Newspapers for the display ads placed by the OAG under this Agreement) and is more explicitly described in paragraph 7 of the Scope of Work ("INAN will forward summary and detailed invoices accompanied by proofs of publication to the OAG for payment within 10 days of receipt by the OAG. Payments made by INAN to the newspapers will be certified as completed within 30 days of OAG payment.") The amount of any individual ad could not be determined in advance of the date of submission, the length being totally dependent on the number of holders on our unclaimed property list at the date of submission.

Thus, as contemplated by the contract, the payments to INAN include (a) the design work for the display ads, and (b) the cost of running the ads in newspapers covering the 92 counties for 2 successive weeks. Had the OAG not used INAN, it would have cut many individual checks to each newspaper that published the property ads. The justification for using INAN is contained in Mr. Zoeller's memorandum to Mr. McQueen.

I trust this memo fully addresses your concerns. If not, please advise.